

SAM – FINANCED ACQUISITIONS
GS \$Mart©

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INTRODUCTION

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(New 12/06)

The financial marketplace established by the Department of General Services, provides financing and payment programs that serve California State and local government entities. Tax-exempt rates are established with lenders for the purpose of financing both purchases and leases. The GS \$Mart© (pronounced “G S Smart”) is the program to use to finance a purchase. The Lease \$Mart© (pronounced “Lease Smart”) is the program to use to finance a lease.

Only approved lenders participate in the programs. The financial marketplace provides negotiated contractual terms and conditions. The result is financial security regarding such issues as tax-exempt qualifications, financial health of the lender, and the financing’s effect on the State’s credit rating.

State departments contemplating financing a transaction are advised to contact a financial marketplace representative early in the acquisition planning process. Proposed use of a source other than the financial marketplace may require advanced approval from the Department of Finance.

Financial marketplace representatives can:

1. Provide program information.
2. Guide governmental entities through the financial marketplace process to create a financed contract.
3. Assist with refinancing contracts.
4. Assist with assignment (or novation) of financial marketplace contracts.

Information regarding the financial marketplace is provided on the Procurement Division web site at the following address:

Financial Marketplace: www.pd.dgs.ca.gov/pplans/default.htm

INSTALLMENT PURCHASES

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(New 12/06)

For the purpose of financing purchases, California government entities are permitted to use the Department of General Services’ (DGS) Golden State Financial (\$) Marketplace (GS \$Mart©, pronounced “G S Smart”) to enter into installment purchase agreements (commonly referred to in the industry as “lease purchases”). Loans are structured to comply with Internal Revenue Service regulations. Approved lenders, financing plans, and tax-exempt rates (which are usually less costly than commercial lending rates) are listed on the GS \$Mart© Internet site.

GS \$Mart©: www.pd.dgs.ca.gov/gsmart/default.htm

Certain budgetary conditions defined by the Department of Finance (DOF) apply to the use of the GS \$Mart© program. Advanced DOF approval may be required. Contact a financial marketplace representative prior to initiating a purchase that involves financing or prior to initiating an assignment of an installment purchase that was financed using the GS \$Mart© program.

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PURCHASED TANGIBLE ASSETS

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(New 12/06)

Purchased tangible assets that may be financed through GS \$Mart© include:

1. Vehicles
2. Information technology equipment and necessary pre-integrated software (including mainframes, personal computers, printers, network equipment, and storage)
3. Software licenses
4. Software development and integration (on a case-by-case basis with Department of Finance (DOF) support unit approval)
5. Select services included with the procurement of assets (e.g., warranty, installation, training)
6. Copy machines
7. Laboratory equipment
8. Medical equipment
9. Furniture (including modular)
10. Video conferencing systems
11. Mailing equipment
12. Telephone systems
13. Most energy efficiency and sustainability equipment and systems (see “Capital Outlay” below)

Tangible assets that may **not** be financed through GS \$Mart© include:

1. Consultant and other services
2. Real property including:
 - a. Land
 - b. Structures
 - c. Easements
 - d. Rights-of-way
 - e. Other forms of legal entitlements to use or dictate the use of real property
3. Capital outlay projects

Capital outlay projects are those that alter the purpose or capacity of real property. Projects that keep real property functioning at its designed level of service, or improve the efficiency of its operating systems – such as repair projects and most energy efficiency projects – are not capital outlay. Note, however, that some energy efficiency projects (e.g., photovoltaics) can involve significant facility engineering issues that make them capital outlay in nature or could be limited by covenants on debt-financed buildings. Such projects must receive prior approval by the DOF before securing financing.

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INSTALLMENT PURCHASE CONDITIONS

3420.20

(New 12/06)

Installment purchases can be used for:

1. Orders for applicable items placed against Leveraged Procurement Agreements such as the California Multiple Award Schedules (CMAS), unless otherwise stated in user instructions,
2. Competitive acquisitions, or
3. Noncompetitive acquisitions.

Conditions for entering into an installment purchase include, but are not limited to, the following:

1. Generally, the financed portion of an acquisition is a minimum of \$100,000. This includes the cost of the tangible asset and, if applicable, sales tax. Financing an amount smaller than \$100,000 may not be cost-effective. Contact the financial marketplace for additional information regarding finance of lower dollar-value transactions.
2. The term duration of the installment purchase may not exceed the projected useful life of the asset being financed.
3. No GS \$Mart© financed contract may be signed without prior written approval by the Department of General Services.
4. Acquisitions conducted under delegated purchasing authority that include financing must subscribe to the requirements identified in the State Contracting Manual, Volume II (Purchasing Authority Manual). For determination of whether the transaction is within a department's delegated purchasing authority limit, the finance cost associated with the purchase is not included.

If a department wishes to consider a lender that is not participating in the GS \$Mart© program, then prior to proceeding contact a financial marketplace representative to learn how the lender can qualify to participate. Requirements to become a lender are located on the GS \$Mart© Internet site.

All State departments that use the GS \$Mart© program and are subject to the Department of General Services' oversight must send a copy of each financed agreement to the financial marketplace. The contract is reviewed to ensure compliance with Internal Revenue Service code requirements. The financial marketplace also files the necessary tax forms and reports on behalf of the department.

ENERGY EFFICIENCY PROJECTS

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(New 12/06)

GS \$Mart© financing may be used for energy efficiency and sustainability projects. However, the approval of these projects is based on a cost-benefit analysis to substantiate there is enough energy savings derived to repay all associated project costs, including financing. A Life Cycle Cost (LCC) analysis model to conduct this evaluation is available from the Department of General Services (DGS). The LCC model **must** be used for this analysis. The DGS will not approve any GS \$Mart© financing for such projects unless the applicant department certifies that the model has been applied and the results justify the acquisition of the asset on a cost-benefit basis.

REFINANCING

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(New 12/06)

The GS \$Mart© Internet site is frequently updated with the latest market information, including approved lenders and finance rates. State departments are advised to review GS \$Mart© information periodically for refinancing opportunities and, if advantageous, to execute a **refinancing** contract to realize the cost savings. To ensure refinancing is executed properly, departments should contact a financial marketplace representative before proceeding.

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FINANCED LEASES
(New 12/06)

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California government entities are permitted to enter into financed leases as described in the Uniform Commercial Code, Section 2A, (commonly referred to as “operating leases”) using the Lease \$Mart© program. Approved lessors, leasing plans, and lease factor rates are listed on the Lease \$Mart© Internet site. Contact a financial marketplace representative prior to initiating a procurement that involves a lease or prior to initiating an assignment of a lease that was financed using the Lease \$Mart© program.

SAM 3700 requires that a lease/purchase analysis be performed prior to entering into a lease. This requirement is also applicable for leases completed using the Lease \$Mart© program.

If there is any chance that an entity may want to own equipment at the end of a lease, it is strongly recommended to either purchase the equipment outright or utilize the GS \$Mart© program to make an installment purchase. The Lease \$Mart© Internet site provides a payment calculator that can help to determine the most cost-effective financing method.

Lease \$Mart©: www.pd.dgs.ca.gov/lsmart/default.htm

LEASED TANGIBLE ASSETS
(New 12/06)

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Leased tangible assets that may be financed through Lease \$Mart© includes:

1. Information technology equipment (including mainframes, personal computers, printers, network equipment, and storage) and
2. Copy machines.

Contact a representative of the financial marketplace if there is a need to establish a financed lease for any other items. A determination of applicability will be made on a case by case basis.

LEASING CONDITIONS
(New 12/06)

3440.20

Financed leases can be used for:

1. Orders for applicable items placed against Leveraged Procurement Agreements such as the California Multiple Award Schedules (CMAS), unless otherwise stated in user instructions,
2. Competitive acquisitions, or
3. Noncompetitive acquisitions.

Conditions for entering into a financed lease include, but are not limited to, the following:

1. The term duration of the financed lease may not exceed the projected useful life of the asset being financed.
2. Acquisitions conducted under delegated purchasing authority that include leasing must subscribe to the requirements identified in the State Contracting Manual, Volume II (Purchasing Authority Manual). For determination of whether the transaction is within a department’s delegated purchasing authority limit, the finance cost associated with the lease is not included.
3. State departments subject to Department of General Services’ (DGS) oversight that use the financial marketplace must send a copy of each financed lease agreement to the Lease \$Mart© Administrator. No financed lease may be signed by a department without prior written approval by the DGS.

If a department wishes to consider a lessor that is not participating in the Lease \$Mart© program, then prior to proceeding contact a financial marketplace representative to learn how the lessor can qualify to participate. Requirements to become a lessor are located on the Lease \$Mart© Internet site.